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SUBJECT: KAZAKHSTAN: PUBLIC-PRIVATE ALLIANCES EXPAND BUSINESS
SERVICES, PROMOTING ECONOMIC DIVERSIFICATION

¶1. SUMMARY: On February 25, USAID established separate
public-private alliances with Baker Hughes (\$1,250,000 over five
years), an American drilling company active in Kazakhstan, and with

Chevron (\$250,000). The partnerships between these two companies
and USAID will improve the supply of skilled labor in the country by
establishing a "Know About Business" (KAB) entrepreneurship course
in select vocational schools in Aktau, Atyrau, Astana, and Almaty.
These recent agreements are but two of a number of public-private
efforts that USAID is promoting to help diversify the Kazakhstani
economy through improved productivity of small- and medium-sized
enterprises (SME). END SUMMARY.

BACKGROUND

¶2. SMEs are important throughout the world as leaders in job
creation and innovation, and motors for broad-based economic growth
and development. In Kazakhstan, SMEs are especially important for
their potential to diversify the country's largely natural
resource-based economy. Unfortunately, global surveys, such as the
World Economic Forum Global Competitiveness Index and the Global
Entrepreneurship Monitoring (GEM) Report (which is sponsored by
USAID in Kazakhstan) reveal that entrepreneurs and SMEs in
Kazakhstan suffer from relatively weak knowledge and poor skills.

¶3. USAID designed the Kazakhstan Small Business Development (KSBD)
project to establish sustainable business development services (BDS)
-- which are non-financial services such as training, consulting,
and information -- for SMEs. Building a market for BDS means that
both the supply and demand for BDS are fostered and expanded.
Markets also need simple but effective regulation -- preferably
self-regulation -- which promotes quality control, ethics, and
continuing education.

¶4. KSBD facilitated important gains through introducing the best
training and consulting tools to SME business service providers
(BSP), and the best international SME development practices to the
Government of Kazakhstan. The project designed a set of
standardized Business Essentials (BE) and Consulting Essentials (CE)
training courses, which are complemented by a set of practical SME
management tools and specialized training courses for consultants
and trainers. These training and consulting courses and tools have
been well received, with 150 trainers/consultants and over 2900
entrepreneurs trained. KSBD also added the International Labor
Organization (ILO) designed vocational curricula to complement KAB.

15. Despite these gains, development of the BDS market will only be successful if it is supported by the private sector and government, as well as by non-governmental players. USAID has an important role to play in establishing alliances which share costs and risks, and which build upon the relative strengths of the three sectors.

STRATEGIC ALLIANCE WITH DAMU ENTERPRISE DEVELOPMENT FUND

16. The Damu Enterprise Development Fund is a state-owned corporation tasked with implementing programs to improve SME access to credit, as well as financing other support for SMEs, such as training and consulting services. Since late 2006, USAID support to Damu has included a comprehensive review of the challenges and opportunities to applying international best practices to assist SMEs. Study tours, technical assistance, and training programs have emphasized the importance of outsourcing SME programs to private sector partner financial institutions and BSPs. This outsourcing approach benefits from private sector efficiency and expertise and promotes commercial sustainability, while minimizing distortions to the emerging market economy. The following are but some of the results of this partnership:

- Damu previously lent directly to SMEs, an approach that proved to be an inefficient method for the disbursement of credit. Damu has now revised its credit program to work through commercial banks. As a result of this new and more efficient approach, this year the Kazakhstani government provided Damu with an additional \$1 billion for its lending program.

- Based partially upon two study tours to the U.S. Small Business Administration and other additional technical assistance, Damu advocated to its state holding company, Samruk-Kazyna, for the development of a network of Enterprise Development Centers (EDCs). These EDCs are designed to provide training and consulting services to SMEs through outsourcing to the private sector. The first of four pilot EDCs will be established by the end of March in Almaty. These EDCs will outsource and carefully subsidize training and consulting to entrepreneurs and SMEs across the country and provide other services, such as government procurement assistance to complement Damu's access to credit programs.

- With USAID support, Damu is now in the final stages of completing a comprehensive SME Handbook of international best practices for promoting SME development. This Handbook will be used to guide the government's strategy and program development at both the national and regional levels. In addition, KSBD is working with the government to develop an Annual Entrepreneurship Report to provide an annual comprehensive overview of the status of SMEs in the country and priorities that will promote continued development.

- Responding to a request from Damu, in March, USAID will provide a workshop on its Development Credit Authority, a financing authority which partially guarantees loans from qualified financial institutions. The workshop and follow-up technical assistance will enable Damu to revise its concept of a guarantee product and role out the product later this year.

ALLIANCES WITH THE PRIVATE SECTOR BUILD CAPACITY

17. The USAID-Baker Hughes alliance will use the KAB course to improve employment opportunities for youth through developing entrepreneurship skills and knowledge, a key to creating a competitive, diversified, flexible, innovative, and growing market economy. The emphasis on entrepreneurial skills will support, in particular, the development of a stronger SME sector. Moreover, the introduction of interactive pedagogical methodologies and improved capacity for evaluation and monitoring will help start the process of modernizing vocational education in Kazakhstan. The Ministry for Education and Science approved of the implementation of KAB in all vocational schools in Kazakhstan, which includes a total enrollment of over 610,000 students. The alliance will establish KAB in up to 10 pilot vocational schools in Atyrau and Aktau, the centers for Kazakhstan's oil production. The program includes training programs for teachers, the provision of materials and equipment, and assistance in tracking the outcomes of the vocational training courses.

18. USAID has also completed negotiations with Chevron for a \$250,000 contribution towards introducing a similar program in up to 10 vocational schools, primarily in Almaty and Astana.

19. On November 1, 2008, in Aksai, West Kazakhstan Oblast, USAID and the Karachaganak Petroleum Operating Joint Venture (KPO), a natural gas consortium of four international companies, completed a training-of-trainers course entitled "Start Your Business." The target group for the training program was rural entrepreneurs. KPO requested and received a proposal from KSBD to expand this program under its Corporate Social Responsibility program. In addition, one

of KSBD's partners in the region submitted a proposal to KPO to provide KSBD courses and consulting to KPO's suppliers. KPO has also worked with prior USAID projects in the areas of quality management and in accounting training programs.

¶10. USAID has a long-standing partnership with the ExxonMobil Foundation which helped establish the Astana Enterprise Development Center. For the first two years of the Center's operation, USAID provided \$300,000 and the ExxonMobil Foundation provided \$921,000. The Center provided about 4,500 entrepreneurs (over 75% of whom were women) with training in strategic and business planning, financial management, marketing, human resources management, taxes, and law, all through outsourcing to local BSPs. Over 130 SMEs (including 51 women-owned or women-managed companies) received business consulting services. ExxonMobil recently approached USAID regarding establishing a second EDC in Atyrau, while continuing to fund the Center in Astana. Both centers will continue to focus support on women in business.

LOCAL GOVERNMENT AND NGO PARTNERS ALSO INVOLVED

¶11. In South Kazakhstan, the city of Shymkent recently established a total of seven EDCs (these EDCs are distinct from Damu's planned network of EDCs). These EDCs are to provide SMEs with information and consulting services, as well as refer clients to USAID's local BSP partner for more advanced training and consulting. This USAID-supported BSP assists the EDCs to identify services in demand.

USAID has also financed the Start Your Business entrepreneurship training course to the staff of these EDCs.

¶12. As part of its program to build BSP capacity, USAID is supporting the establishment and development of the Kazakhstan Management Consultant Association (KAMC). The KAMC can play a crucial role of identifying competent and credible management consultants, which will assist in the development of the consulting profession in Kazakhstan. In addition to promoting the international Certified Management Consultant program, KAMC agreed to adopt a Certified Associate Member designation based on KSBD's BE/CE program, as well as other professional requirements such as experience, ethics, continuing professional development, and association membership. USAID is working with the European Bank for Reconstruction and Development's Business Advisory Services program to assist the institutional development of KAMC.

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